



KAY IVEY  
GOVERNOR

JIM L. RIDLING  
COMMISSIONER

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
201 MONROE STREET, SUITE 502  
POST OFFICE BOX 303351  
MONTGOMERY, ALABAMA 36130-3351  
TELEPHONE: (334) 269-3550  
FACSIMILE: (334) 241-4192  
INTERNET: [www.aldoi.gov](http://www.aldoi.gov)

DEPUTY COMMISSIONERS  
JERRY WORKMAN  
MARK FOWLER  
CHIEF EXAMINER  
RICHARD L. FORD  
STATE FIRE MARSHAL  
SCOTT F. PILGREEN  
GENERAL COUNSEL  
REYN NORMAN

October 16, 2019

The Honorable Alex M. Azar, II  
Secretary  
U.S. Department of Health and Human Services  
200 Independence Ave., S.W.  
Washington, D.C. 20201

Dear Mr. Secretary:

The Alabama Department of Insurance (DOI) again provides additional support for the DOI's initial request made on November 27, 2017, to modify Small Group Risk Adjustment transfers. The DOI continues to believe the national risk adjustment program is unable to work as precisely in the Alabama Small Group Market. We provided support for our initial request on August 1, 2018, and September 10, 2018, and again on July 30, 2019. As before, we do not assert that the risk adjustment formula is flawed, only that it produces imprecise results in Alabama. Therefore, we ask that you continue to rule favorably upon our request to reduce small group risk adjustment transfers by 50% in addition to the administrative costs reduction.

In the DOI letter on July 30, 2019, we asked that risk adjustment transfers for the Individual Market also be reduced 50%. Due to the tight timeframe, the data upon which this separate request was based was not yet complete, nor were we able to thoroughly evaluate it at the time. After additional review, we withdraw that portion of the request for this year. As more information becomes available, we may make a similar or revised request in future years for the Individual Market.

In the DOI letter to you on September 10, 2018, we were forced to redact portions of the letter to protect confidential data provided by the issuers. In order to limit the level of redaction that might be required this year, we have developed a table of financial information with data taken from public sources, as identified in an endnote. However, while both sources are public, we must unfortunately still redact the information from one public source that is available for purchase. As we noted last year, we believe the public should have the opportunity to review the information supporting this request to the extent possible. We are only partially able to achieve this goal.

#### Impact of Risk Adjustment Transfer Reductions

Alabama continues to believe removing one half of the calculated risk adjustment transfers would provide additional stability to our market. We have added a fifth issuer in the Small Group Market in Alabama, still representing just three corporate groups. The four issuers that have experience to report for 2017 and 2018 are Blue Cross and Blue Shield of Alabama, (BCBSAL), UnitedHealthcare of Alabama, Inc, (UHCA), UnitedHealthcare Insurance Company, (UHCI), and VIVA Health, Inc., (VIVA). DOI provides two tables to illustrate the financial impact of reductions in transfers.

Table 1<sup>1</sup> provides data on premium, claims, and transfers for these four issuers in the Small Group Market for the 2017 and 2018 benefit year. Table 2 then shows how a reduction in transfers by 50% would impact financial results. Note that this data is taken from a public source, (though we again must redact data from one of the sources), that captures slightly different data than was illustrated in the redacted table last year. We believe this public source of data will provide more consistent and accessible results from year to year. (See endnote below for data definitions).

Table 1: Alabama Small Group Premium, Claims, and Risk Adjustment Transfers								
2018	Premium	Share	Claim	%	100% Transfer	%	Combined	%
BCBSAL					\$ 2,587,810			
UHCA					\$ (920,616)			
UHCI					\$(1,087,486)			
VIVA					\$ (579,708)			
Total					\$ 0			
Non-BCBSAL					\$ 2,587,810			
2017								
BCBSAL					\$ 1,662,986			
UHCA					\$(1,698,228)			
UHCI					\$ 737,982			
VIVA					\$ (702,740)			
Total					\$ -			
Non-BCBSAL					\$(1,662,986)			

Table 2: Alabama Small Group Premium, Claims, and Modified Risk Adjustment Transfers								
2018	Premium	Share	Claim	%	50% Transfer	%	Combined	%
BCBSAL					\$ 1,293,905			
UHCA					\$ (460,308)			
UHCI					\$ (543,743)			
VIVA					\$ (289,854)			
Total					\$ 0			
Non-BCBSAL					\$(1,293,905)			
2017								
BCBSAL					\$ 831,493			
UHCA					\$ (849,114)			
UHCI					\$ 368,991			
VIVA					\$ (351,370)			
Total					\$ -			
Non-BCBSAL					\$ (831,493)			

### De Minimis Impact on Premium

The federal regulation asks that we demonstrate our proposal would have a de minimis impact on necessary premium. We have relied upon rate filings for the year 2020 to evaluate the impact of reducing risk adjustment transfers. A reduction of 50% was approved last year for the 2020 plan year, so rates for 2020 were developed anticipating the 50% reduction. The impact of the reduction in transfers did not result in an adjustment to any rate exceeding a de minimis level of increase, (i.e. not more than 1 percent of premium).

### Future Expectations

We continue to lack credible information to project results beyond what our issuers have provided in their rate filings. We do not anticipate a significant change in the relativities within the market. We do anticipate that large transfers will continue to flow from issuers representing a very small share of the market to the issuer with a dominant market share.

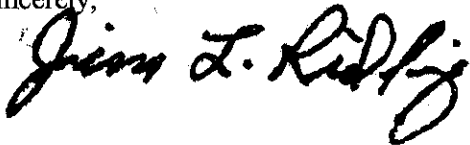
### Conclusion

In summary, we continue to believe that in a market like Alabama's, with an extremely unbalanced market share, the risk adjustment program lacks the precision it exhibits in other markets.

If our request is not approved, we believe we will have only two corporate groups providing coverage in the Alabama Small Group Market. However we believe that if we continue to have the modified risk adjustment program transferring one half the calculated transfers, we may grow the market in Alabama. We believe our four issuers will remain in the market.

We ask that you continue your approval of our request for flexibility on risk adjustment transfers, extending it for the 2021 policy year.

Sincerely,



Jim L. Ridling  
Commissioner

cc: Randy Pate, Deputy Administrator and Director, CCIIO  
Jeff Wu, Deputy Director for Policy, CCIIO

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<sup>1</sup> Data for these tables is taken from issuer's "Supplemental Health Care Exhibit", (SHCE) published by the National Association of Insurance Commissioners, and from the "Summary Report on Permanent Risk Adjustment Transfers", (Summary Report), released by the Center for Consumer Information and Insurance Oversight.

Premium is developed from Part 1, line 1.1 of the SHCE with adjustments to remove Risk Adjustment accruals as identified in the table following Part 1.

Claims are taken from Part 1, line 5.0 of the SHCE.

Transfers are taken from Table 4 of section VI of the Summary Report.